UNITED
NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/1998/24/Add.1
24 March 1998

ORIGINAL: ENGLISH

Annual session 1998
8-19 June 1998, Geneva
Item 16 of the provisional agenda
UNOPS

UNITED NATIONS OFFICE FOR PROJECT SERVICES

Annual report of the Executive Director on the activities of the United Nations Office for Project Services

Internal oversight

I. INTRODUCTION

1. The present report is the first in which internal oversight issues of the United Nations Office for Project Services (UNOPS) are addressed separately from those of the United Nations Development Programme (UNDP). As UNOPS obtains numerous administrative services from UNDP, however, many of the audit and oversight initiatives undertaken by UNDP also affect UNOPS. Such activities are presented in document DP/1998/26, which the Executive Board may wish to consider in conjunction with the present report.

2. The oversight framework for UNOPS includes three elements: (a) external audit, performed by the United Nations Board of Auditors; (b) internal audit, a remunerated service provided by the Office of Audit and Performance Review (OAPR) of UNDP under the terms of an agreement between the two organizations; and (c) internal management oversight that is directly associated with the self-financing principle by which UNOPS operates.

II. INTERNAL MANAGEMENT OVERSIGHT

3. Oversight activities in a self-financing organization such as UNOPS are woven particularly closely into day-to-day operations. Financial viability is dependent upon regular monitoring of all aspects of ongoing operations: this

monitoring enables early detection of and initiation of corrective action for any problems of a financial or operational nature that arise. In this regard, the financial model first presented by UNOPS in document DP/1995/60 continues to provide a sound framework for financial oversight and management of UNOPS, as illustrated by the financial performance recorded in the three years since the establishment of UNOPS.

4. An operational entity such as UNOPS also has a wide range of risk exposures that are directly related to the type of work it performs. UNOPS has moved aggressively to manage and contain these risk exposures; its approach to risk management is presented in detail in document DP/1997/26. This approach proactively blends measures that prevent, limit or transfer risk exposures. As reported in document DP/1998/24, for example, UNOPS has developed a procurement training programme to minimize various types of risk exposure relating to contracting and procurement activities, and, in particular, to reduce the likelihood of procedural mistakes. It is also improving its insurance coverage to protect against other risks. The Policy and Contracts Division regularly reviews and updates standard documents to ensure that the maximum amount of protection is provided to UNOPS through its contracts and agreements. The business planning process introduced in 1995 provides a means of regularly prioritizing and monitoring organizational performance with regard to both financial and non-financial objectives.

5. In addition, UNOPS activities are overseen by the Management Coordination Committee, which reviews and clears UNOPS budget submissions, business plans, and key strategies, such as decentralization activities and information systems plans.

III. BOARD OF AUDITORS

6. UNOPS is now audited and reported on separately by the United Nations Board of Auditors, which is currently concluding management reviews on management information systems, procurement, and human resources management issues. UNOPS reported to the Executive Board in documents DP/1997/27 and DP/1998/25 on its follow-up to the previous report of the Board of Auditors (A/51/5/Add.10).

IV. FINDINGS OF THE OFFICE OF AUDIT AND PERFORMANCE REVIEW

7. The UNOPS section of OAPR currently includes 7 of the 39 OAPR posts, with 4 of the UNOPS posts being for auditors. The information presented in the present section contains the views of, and has been discussed with, OAPR.

8. The current portfolio of active projects and management services agreement (MSA) activities is approximately 1,700. During 1997, OAPR conducted audits and reviews of both headquarters operations and projects and other activities in the field. This included audits of management and other support services provided by UNDP through UNOPS under Letters of Agreement between the Borrowing Governments and UNDP with respect to activities financed from World Bank loans. This audit was carried out as required by the agreement between the World Bank and UNDP on the audit modality of MSAs, under which UNDP is to

provide the Borrowing Governments with audited financial statements for each MSA with expenditure above $100,000 during the fiscal year under consideration.

9. At headquarters, a management audit of the Montreal Protocol Trust Fund-funded Portfolio of UNOPS-executed Projects, an audit of Completion of UNOPS Executed Projects and desk audits of two country projects in the Latin America and the Caribbean region were performed. Also, the audits of 11 MSAs for the activity year 1996 were performed at headquarters with support from local audit firms in three of the countries concerned, the services of which were engaged by OAPR for that purpose. A report providing observations emanating from the audit of these 11 MSAs was prepared. In addition, the review of outstanding claims for settlement under an interregional project was undertaken in 1997.

10. Field audits covered the following activities: the projects Africa 2000 Network and GEF Small Grants Programme (Africa region); a management and other support services activity funded through the Japanese Procurement Programme (Latin America and the Caribbean region); a regional project funded by the United Nations Drug Control Programme (Asia region); an audit of a project in Africa funded by UNCDF; an activity under the programme approach in Africa; a project funded by the Global Environment Facility and another of an emergency assistance nature, both in the Arab region; and an investigation, which started in 1996, into allegations of unauthorized expenditure in the Asia region was completed. In addition, an investigation into allegations concerning embezzlement of funds in the Latin America and the Caribbean region was undertaken in 1997.

11. Because of the special nature and purpose of the reports on the audits of the government-funded MSAs financed by the World Bank, those 11 reports do not contain recommendations. Of the other 8 reports issued in 1997, 6 contained a total of 63 recommendations. Of these, 22 were in the area of finance, 15 in administration and 26 in the area of programme. Each of the remaining two reports, which covered investigations into allegations of wrongdoing contained an opinion, rather than specific recommendations.

12. UNOPS provided its response on the actions taken or contemplated to be taken to implement the recommendations contained in the 6 reports. Of the 63 recommendations, UNOPS agreed on 57, or in 90 per cent of the cases. For information purposes, it should be noted that 8 draft audit reports that have been submitted to UNOPS for comments before their finalization contain 174 recommendations. UNOPS has, in the second half of December 1997, provided its comments regarding four of the reports, which contained 95 recommendations. UNOPS agreed on 90 of these, or in 95 per cent of the cases. The four reports were issued in January 1998.

13. In reviewing the results from the audit of UNOPS operations, the diversified nature of the UNOPS operations needs to be borne in mind. Although projects and MSA activities have common aspects, many of them, particularly the larger and more complicated ones, have specific features. The audits that have been performed of UNOPS operations in recent years are therefore of a stand-alone nature. Consequently, they contain recommendations specific to the projects reviewed and do not provide a basis from which general trends in UNOPS operations can be identified.

V. EXECUTIVE BOARD ACTION

14. The Executive Board may wish to

Take note of the present report (DP/1998/24/Add.1) on internal oversight.